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Sustainable development and international economic cooperation: renewal of the dialogue on strengthening international economic cooperation for development through partnership

Summary by the President of the General Assembly of the high-level dialogue on the theme of the social and economic impact of globalization and interdependence and their policy implications

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I. Overview

1. The General Assembly held a two-day high-level meeting on renewal of the dialogue on strengthening international economic cooperation for development on 17 and 18 September 1998. It proved to be a productive, enlightening and highly relevant discussion in the current international economic environment. The dialogue represented an encouraging further step in United Nations efforts to advance multilateral cooperation on issues of vital importance to all countries.

2. First of all, the timeliness and relevance of the dialogue was recognized by all. Conceived some time ago, when globalization was generally viewed with optimism and hope, the dialogue on the social and economic impact of globalization and liberalization acquired a new urgency and importance in view of the current far-reaching economic crisis and its devastating social consequences.

3. Secondly, the dialogue was held in a new spirit of partnership based on mutual interests and shared benefits. This was an unusually frank, constructive and collaborative interaction of policy makers who fully realized that concerted actions on an international scale are imperative for effective national responses to the challenges of globalization. A genuine desire to understand the point of view of others and a sincere readiness to explore ways of addressing multifaceted concerns created by globalization brought about a spirit of understanding that is necessary for a productive discussion on such a complex, somewhat contradictory and, for many, painful subject as the social and economic impact of globalization. Many participants identified common interests, and an encouraging convergence of perceptions on a number of issues emerged as a result.

4. Thirdly, the debates were informed, analytic and action-oriented. They provided a rich source of potentially valuable ideas and proposals. The opening statement by the President of the General Assembly, the address by the Secretary-General at the closing plenary meeting and the statement by the Deputy Secretary-General at the start of the debate helped to set the direction and orientation for the dialogue and for further progress.

5. Last but not least, the format of the meeting was a unique innovation in the work of the General Assembly. During the high-level meeting, a creative combination of events took place: a plenary debate in which delegations stated their national positions; two ministerial round tables on national and international responses to globalization that afforded a stimulating and fruitful exchange of views on key aspects of experiences and policies at the national and international levels; and two informal panels which brought together a wealth of expertise, knowledge and perspectives from the private sector, the academic world, trade unions and the civil society at large. Active participation of United Nations entities such as the United Nations Development Programme, the United Nations Population Fund, the International Labour Organization and the United Nations Educational, Scientific and Cultural Organization, as well as the Bretton Woods institutions, significantly enriched the substance and comprehensiveness of analysis and policy advice. Thus, the vast and complex issue of globalization and its social and economic consequences, as well as the required policy responses, were addressed from a great variety of perspectives.

6. The general thrust of the two-day discussions may be summarized as follows. First of all, globalization is an irreversible process, not an option. It is a positive and not an evil force, but it is also blind and therefore needs to be carefully harnessed. Secondly, national efforts to meet the challenges of globalization, in particular institution-building, are necessary but not sufficient. Action on a global scale, involving multilateral institutions as well as the world's leading economies is imperative. Thirdly, there is a need to move beyond the status quo, in particular by reviewing the current architecture of the international financial system with a view to enhancing its transparency, accountability and participatory character. Fourthly, globalization is a multifaceted process involving many actors. In order to address effectively the issues of inclusiveness and participation, it is necessary to promote a global civil ethic to shape the rules that will ensure that globalization benefits all, including those who are currently marginalized. Fifthly, the United Nations, owing to its universality and broad mandate, provides a unique platform for defining the principles and norms necessary to harness the potential of globalization and for promoting a comprehensive dialogue on globalization around the concept of "global housekeeping".

7. It was noted that the dialogue was the most recent in a series of innovative events organized at the United Nations in 1998. The special high-level meeting of the Economic and Social Council with the Bretton Woods institutions on 18 April 1998, the 1998 substantive session of the Council, in particular its high-level segment, and the two-day General Assembly high-level dialogue on globalization vividly demonstrated the unique capacity of the United Nations to convoke most, if not all, stakeholders in issues of vital global importance and involve them in a meaningful and productive interaction.

II. Summary of the intergovernmental meetings

8. The two-day high-level meeting on the overall theme of the social and economic impact of globalization and interdependence and their policy implications opened with statements by the President of the General Assembly and the Deputy Secretary-General, followed by over 40 speakers, including ministers and high-level officials. On the second day, two ministerial round tables and a closing plenary meeting were held. The discussions were marked by a positive spirit and were informed by a search for constructive solutions.

9. The participants expressed their views on the key issues outlined below.

10. Globalization was seen as inevitable. It is driven by technology and markets. But it is not a force of nature, rather it is the result of man-made processes. It must be shaped to serve humanity. To that end, it needs to be carefully managed by countries nationally and through international cooperation.

11. Globalization facilitates more efficient worldwide allocation of resources, stimulates growth and increases welfare. Yet, it is not a smooth, painless process. For better integration into the world economy, countries need to adopt sound macroeconomic policies and develop effective institutional and legal frameworks and the necessary physical and human infrastructures. Developing countries have the primary responsibility to meet those requirements within their national borders, but international support is of key importance for the success of their efforts.

12. Although substantial gains have been attained as a result of globalization and successful development efforts, globalization and technological changes have increased uncertainties and exposure to risks, owing in particular to the contagion effect. Income disparities between and within countries have continued to widen. There is a widespread perception that the rapid pace of globalization is accompanied by the growing frustration of Governments which believe that they have lost some control over their economies or their societies. That is particularly so when economies face sudden withdrawals of capital in response to rapid changes in market conditions.

13. Considerable attention was given to the marginalization of countries and groups of people within countries and to the issues of asymmetry and inequity. For some developing countries, particularly for the less developed and African countries, costs of globalization at times appear to outweigh the benefits. The devastating social consequences of the current financial crisis including massive unemployment, loss of health and education services and increasing poverty in the affected countries, were of deep concern.

14. Governments should not overreact and turn to isolation or autarchy, but should maintain an open economy, focus on what they can do to strengthen institutions and structures, and cooperate to stimulate the world economy and stabilize financial markets. Among the national measures to cope with globalization the following were stressed: the high priority of strengthening financial institutions; the need to tackle the private-sector debt; the urgent need to reshape the economy by addressing monopolistic positions; and the promotion of good governance through increased transparency and elimination of corruption.

15. Attempts to reverse the process of globalization in order to check its negative manifestations, such as the volatility of short-term capital flows, could prolong or exacerbate the problems, adding to the costs stemming from globalization instead of containing them. The institutional causes of the problems that have led to capital outflows should also be addressed. Institutional constraints normally linked to weak capital markets and inadequate regulations should be addressed in order to strengthen the confidence of investors, domestic and foreign, and decrease the volatility of financial flows.

16. Facing the negative consequences of globalization requires a strategy of both national and international actions. It is important to recognize that a country in crisis has the main responsibility in finding a solution to its own development problems. National responses are normally a combination of offensive measures aimed at benefiting from globalization and defensive measures aimed at minimizing the risk that could arise from globalization. Today, many developing countries may be tempted to focus on defensive responses, but the solution is probably through the adoption of a balanced mix of the two types of measures. National responses to face the costs of globalization need to be supported by adequate international assistance and an improved external environment.

17. Contrary to the past, problems have emerged not because of current account imbalances but of sudden disruptive changes in the capital account. Moreover, the amount of resources involved are of such magnitude that they have overwhelmed the available funds in the international financial institutions despite strong and additional bilateral support for many countries. Thus, planning for an adequate level of funds to anticipate and

prevent future crisis remains a major collective challenge. The issue of moral hazard needs to be addressed to ensure responsible lending decisions.

18. The pace and sequencing of liberalization of capital flows should be determined by each country in light of its specific circumstances and needs. The United Nations and the Bretton Woods institutions should work together to support country efforts. One possible national response to the negative impact of globalization is to apply liberalization measures related to capital markets in stages. Before deciding on the introduction of a full-scale liberalization of capital markets, it is important to verify whether there are adequate legal and financial infrastructures to cope with the growth process. No single model of liberalization exists; alternative models can be appropriate to different stages of development. Financial reforms in developing countries have sometimes been interpreted only in terms of increasing liberalization of markets. Financial reforms also require the adoption of new regulations for the markets in order to anticipate the negative consequences of new challenges. Similarly, the temporary control of short-term capital flows could be adopted in the case of a country in deep financial crisis.

19. Measures to correct market failures are needed from national authorities, but the success of those measures in overcoming the crisis will depend on the actions taken by the world's leading economies and multilateral institutions. The threat of a worldwide deflationary spiral must be countered and the current financial turmoil must not be allowed to turn into global economic recession. Swift and decisive actions are urgently needed to counter that possibility. It was pointed out that increased and sustained international assistance is crucial. A dialogue based on mutual understanding and sharing of responsibilities is required.

20. There is a need to review the architecture of the international financial system. Critical elements of such a system should be transparency, accountability and participation at all levels – national, regional and international. With financial and labour markets inherently volatile, the need for regulation and supervision is obvious, but the institutions necessary for such oversight are clearly not yet adequate to the challenges of globalization. Consequently, decisive steps to accelerate institution-building were urgently needed.

21. A transparent rule-based trading system is needed to provide a level playing field to allow sharing of the benefits of globalization. Although much progress has been made in the area of trade liberalization since the creation of the World Trade Organization (WTO), significant market barriers still exist. Africa and the least developed countries that face the threat of marginalization need free access to markets. Marginalized countries are the ones most in need of trade, investment and growth generated by globalization. It was recalled that at the high-level segment of the Economic and Social Council in 1998, the need for a more secure and broad-based trading system was discussed. A set of additional coherent measures must be articulated in the area of trade liberalization.

22. While private capital flows have increased tremendously, these cannot be a substitute for official development assistance (ODA). The level and quality of ODA must be improved. Increased ODA is essential to support national efforts to establish a social safety net and support the poorest and most vulnerable sectors of society. More vigorous debt-relief measures are also needed. An increased level of long-term non-concessional loans from the international financial institutions could act as a stabilizing factor. Balance-of-payment surpluses could be recycled as untied loans and humanitarian aid.

23. Globalization is not merely an economic process; it must take place in the right social and political context. Social cohesion and social contracts were seen as coming under serious threat. The pursuit of liberalization in the name of globalization not only with respect to capital flows and trade, but also in terms of privatizing social policies, was putting increasing strains on social solidarity. The move away from the universality of social programmes towards targeted social safety nets for the poor and marginalized was seen by some as an unwelcome trend.

24. The asymmetric distribution of benefits and risks arising from globalization warranted the conclusion of a new contract between developing and developed countries, based on genuine solidarity and shared responsibility, with a view to creating a level playing field where all countries could take full advantage of the process. A central aspect of this contract should be a common vision of universal growth and development benefiting all countries and all individuals.

25. A major challenge facing policy makers was seen to consist in how to make the policies and measures which addressed the problems in financial markets compatible with strategies which aimed at the eradication of poverty. Addressing poverty, population growth and environmental degradation is crucial in attaining the goals and commitments made at the major United Nations conferences. Sufficient resources exist to eradicate poverty, according to the *Human Development Report* of the United Nations Development Programme. However, the political will to

honour the national and international commitments already made is needed.

26. Market-driven globalization will ensure neither fairness nor social progress. Major joint efforts by all members of the international community are needed to devise norms for globalization to be truly supportive of human development. Common responses have to be built on shared values that reflect the broader aspirations of our global society. It is the role of the United Nations to assume normative leadership and to set the "values agenda" for globalization.

III. Summary of informal panels

27. Two informal panels were held, one on the economic and the other on the social aspects of globalization. Eight panellists, representing a wide geographical diversity, provided the meeting with their analyses from the perspectives of non-governmental actors, including the private sector, academia, parliamentarians and trade unions. The salient points of the panel discussions are summarized below.

28. Globalization means growing interdependence among countries, each finding it increasingly useful to share part of their former power over policies on a reciprocal basis with other countries within a framework of established international organizations. That tendency is driven by strong economic motivation, since there are benefits to be gained in exchange for similar concessions from other countries, and by rapid advances in technology, in particular in telecommunications and transport.

29. Liberalization of trade and investment has been the hallmark of globalization for the past decades, generating accelerated economic growth. The sustainability of growth should not be seen only for its employment or environmental impact, but also in the context of financial instability. Globalization phenomena should not be considered only for their impact on physical and financial capital flows, but also on human and natural capital, as well as on national sovereignty and cultural diversity, including at the local and community level.

30. There are, at the same time, problems and risks associated with globalization, including the following:

(a) Different types of capital flows (foreign direct investment, portfolio investments, borrowing etc.) have very different degrees of beneficial effects. In fact, short-term portfolio investments imply increased volatility and create risks for national balance of payments and foreign-exchange markets;

(b) Private capital flows are heavily concentrated and some countries are virtually excluded;

(c) Excessive capital inflows can create problems such as currency appreciation, a rise in asset prices, an increase in money supply and subsequent inflationary pressures.

31. One of the main problems of globalization is that countries do not have the same access to the global markets. Capital inflows and technological transfers do not necessarily bring benefits to developing countries in the same proportion as to developed countries, unless they are accompanied by the presence of other factors of the production function. The main reason is the current inadequacy of institutions and management capabilities in developing countries. Building up both will take time.

32. One lesson learned from the volatility of capital markets is that liberalization of trade is not the same as liberalization of capital flows. Freedom in capital movements should not be introduced until national institutions are ready, and a number of measures can be introduced to reduce the mobility of capital in an emerging economy. Liberalization must be compatible with national economic systems. If the liberalization efforts overshoot, they might make a developing country more vulnerable.

33. Efforts to control the instability of capital movements can be undertaken at different levels as follows:

(a) Within countries, it is necessary to make an effort to adjust to the globalization process by improving the institutional and regulatory context. Capital-importing countries should minimize internal risks and instability connected with capital flows. Protectionism and isolationism are not valid responses to the challenge of globalization. Rather, it is necessary to tackle the problems at their source. Thus, countries hit by financial crises that are linked to domestic financial imbalances should address those imbalances, such as: large fiscal deficits; inadequate functioning of the banking sector due to lack of banking regulations; and rigidities of exchange rates. In particular, developing countries must speed up reforms of their domestic institutions;

(b) It is also important to strengthen the decentralization of economic processes at the regional and local level within countries, in order to enhance local capacity to benefit from the advantages generated by globalization and to minimize the effects of crises;

(c) A global system of support, cooperation and collaboration among countries is necessary in order to reduce systemic risks. It is important to develop, within multilateral institutions, mechanisms of international cooperation and coordination to monitor certain world economic processes, especially as regards the financial system. It is necessary not only to introduce an early warning system, but also to ensure transparency of the markets, since changes in one country immediately affect other parts of the world. The measures include efforts to achieve regional integration and to strengthen international institutions, such as those within the United Nations system, including the International Monetary Fund (IMF), WTO and the World Bank. It is not necessary to create new international organizations, although the existing ones (like IMF) need to be decisively reformed by adapting their objectives and policies in order to increase their effectiveness and to take account of the longer-term effects of financial instability;

(d) Governments should introduce measures aimed at improving the environment for foreign direct investment in their countries. It is also essential to coordinate national policies, especially fiscal policies, in order to discourage capital flows generated only by differentials in fiscal treatment.

34. Recent crises have demonstrated that a global market by itself cannot guarantee stability and order. Mutually beneficial globalization requires an improvement of both domestic and international institutions and the building-up of market management capability. This means that globalization should no longer be a spontaneous process solely driven by the profit motive. It also requires more than only the efforts of developing countries to solve their domestic problems: some form of intervention is needed from global public forces such as international organizations to provide assistance and regulations to reduce the disadvantages of developing countries. Globalization thus requires global governance. A major effort on the international level should be undertaken in order to maximize the opportunities and minimize the uncertainties. Particular attention should be paid to capital flows so that the global financial market does not develop into a "world financial casino".

35. International organizations should introduce reforms in order to provide early warning, risk assessment and speculation management mechanisms for member countries, particularly for less developed countries. International organizations should also provide more assistance for institutional reforms in developing countries.

36. The impact of Internet and new information technologies shows that globalization processes in this domain bring a shift of power from countries with technologically less developed information infrastructure to multinational firms with the ability to gather, interpret and react to vast information sources. The United Nations system, through such organizations as the United Nations Educational, Scientific and Cultural Organization, the International Telecommunication Union and the World Bank, can provide support to less developed parts of the world in the information revolution currently under way.

IV. Concluding observations

37. At the close of the two-day meeting, there was general agreement that the high-level debate had clearly shown the usefulness and value of a timely and comprehensive dialogue, conducted in a constructive and collaborative spirit with ministerial participation, on a most critical issue of globalization that affects the whole of humanity. A common desire was expressed to continue the political dialogue with a view to developing a coherent and effective response to the opportunities and challenges of globalization. The General Assembly will evaluate the experience of the high-level meeting and decide on the appropriate follow-up.

V. Proposals and suggestions made by delegations

38. In the course of the dialogue, proposals on possible further steps in addressing the issues discussed at the meeting were made by delegations.

39. Many delegations argued for the development of reasonable but effective regulation of international money markets so that they would become more open and transparent. It was also suggested that consideration be given to establishing a mechanism to mitigate the unpredictability and dire effects of globalization and to ensure that the opportunities created by it were equally available to all countries. Such a mechanism should be able to monitor and ensure surveillance of capital markets and international financial operations. In that context, an in-depth study of the world monetary and financial system from the perspective of the requirements of development was believed to be of crucial importance.

40. One delegation suggested that the negative aspects of globalizations should be addressed through implementation

of the idea of the new development strategy, the core of which was a partnership between recipient and donor countries and the ownership of the development process by developing countries. Another delegation stressed the need to continue to work together to address with increased vigour the troika of poverty, environmental degradation and population growth, while ensuring that developing countries remained at the centre of their own development.

41. Several speakers underscored the importance of appropriate national policy responses to the challenges of globalization and welcomed the growing convergence of views on what constituted sound policies. It was noted that besides strong macroeconomic fundamentals, a sound institutional and regulatory framework was critical, and that the social dimension, including a better distribution of benefits of growth, must be an integral part of policy responses. In that context, the need to support poor developing countries in their efforts to improve their institutional and management capabilities was emphasized.

42. Many delegations focused on the need to strengthen multilateralism. It was underscored that the establishment of a global governance that would match the potency and the scope of globalization was possible only through the central instrumentality of a reformed, democratized and fully empowered United Nations. One delegation was of the view that a global dialogue should be launched to implement the goals and objectives of the Agenda for Development (General Assembly resolution 51/240, annex), and that a resumed fifty-third session of the General Assembly could be held to initiate such a dialogue at the ministerial level. Other speakers stated that common responses had to be built on shared values that reflected the broader aspirations of global society, and that the United Nations was the unique forum for defining the principles and norms necessary to harness the potential of globalization. One delegation, recalling the need to enhance international cooperation to deal effectively with emerging crises, suggested the establishment of a peer review mechanism, to function in close collaboration with the IMF and the World Bank, that would enhance oversight of developments in the financial sector in all countries.

43. It was suggested that an emergency action programme to shield the weakest economies from the consequences of global economic turbulence was needed. The following broad components should be considered on a priority basis: safety-net measures, including emergency assistance; balance-of-payment support to severely affected countries; an immediate increase in the level of ODA; reduction of a significant amount of external debt on an urgent basis, while pursuing serious efforts at a decisive reduction of the debt burden on the least developed countries; compensatory measures to cover shortfalls in earnings from primary commodity exports and from a reduction in remittances; and the immediate lifting of trade barriers affecting the least developed countries.

44. One delegation suggested the following action: collaboration among the industrialized countries to spur economic growth; debt relief for private sector firms in crisis-affected countries; doubling World Bank support for social safety-nets programmes; activating the IMF emergency fund of 15 billion United States dollars to head off more financial panic; opening markets further to expand trade while putting in place safeguards for labour standards and the environment; and calling a meeting of finance ministers and central bank directors from the G-7 and emerging economies to seek ways to revise the international financial architecture to meet the current challenges.

45. Many speakers addressed the urgent need for rethinking the existing international financial institutions. It was suggested, for instance, that they should be gradually turned into a more efficient instrument for consolidation of the global financial system, regulation of transboundary financial flows and implementation of preventive anti-crisis measures, including through development, following the WTO example of international rules and standards of conduct for financial market operators, as well as monitoring their compliance. Other speakers stressed the need for much better regulation and supervision of the financial system in all countries, on the basis of a common set of norms and standards, as well as the need for better information and transparency and more effective surveillance. One of the unresolved problems in that regard was how surveillance could be made more symmetric so that it focused not just on the financial system of recipient countries, but also on financial institutions in the capital-exporting countries. The need to enhance the IMF capability to act as a lender of last resort was also emphasized.

46. Several speakers reiterated their support for the proposed international conference on financing for development.